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**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON HOUSE BILL NO. 78,
RELATING TO NON-GENERAL FUNDS**

House Committee on Finance

February 18, 2015

Chair Luke and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in support of House Bill No. 78 (HB 78), which would reclassify the Accrued Vacation and Sick Leave Fund to a trust fund as recommended by the Auditor in Report No. 14-04.

In our report, we found that the Accrued Vacation and Sick Leave Fund does not meet criteria for a revolving fund; rather, a trust fund classification would be more appropriate. DLNR agreed. HB 78 would reclassify the fund to a trust fund, thus implementing our recommendation.

Thank you for the opportunity to testify in support of HB 78. I am available to answer any questions you may have.



DAVID Y. IGE
GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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**Testimony of
CARTY S. CHANG
Interim Chairperson**

**Before the House Committee on
FINANCE**

**Wednesday, February 18, 2015
2:00 PM
State Capitol, Conference Room 308**

**In consideration of
HOUSE BILL 78
RELATING TO NON-GENERAL FUNDS**

House Bill 78 proposes to reclassify the accrued vacation and sick leave fund to a trust fund as recommended by the Auditor. **The Department of Land and Natural Resources (Department) strongly supports this measure.**

This fund receives and holds funds for vacation and sick leave related to capital improvement project-funded staff positions. The auditor's Report No. 14-04, entitled *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources*, states that while the administratively created fund meets the purpose for which it was established, it does not meet the criteria for a revolving fund and that reclassifying it as a trust fund would be more appropriate. House Bill 78 will allow the Department to create a trust fund and transfer all the balances into the new fund, as recommended by the auditor.

Thank you very much for the opportunity to testify on this measure.

CARTY S. CHANG
INTERIM CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

DANIEL S. QUINN
INTERIM FIRST DEPUTY

W. ROY HARDY
ACTING DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
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HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
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SUBJECT: MISCELLANEOUS, Reclassification of non-general fund

BILL NUMBER: HB 78

INTRODUCED BY: Luke and Nishimoto

EXECUTIVE SUMMARY: Reclassifies the accrued vacation and sick leave fund as a trust fund, in accordance with the State Auditor's recommendations.

BRIEF SUMMARY: Reclassifies the accrued vacation and sick leave fund as a trust fund.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements some of the state auditor's recommendations in the auditor's report No. 14-04 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the department of defense and the department of land and natural resources.

The 1989 Tax Review Commission noted that use of special fund financing is a "departure from Hawaii's sound fiscal policies and should be avoided." It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

Seconding the Commission's harsh criticism was the State Auditor's report issued in February of 1991 that recognized that the "tax is levied on the general public rather than specific beneficiaries of the program," and thus the fund did not reflect a "direct link between user benefits and user charges."

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 2/17/15